One-fifth of large retirement plan sponsors say they are suspending 401(k) matches

Large sponsors quicker to implement retirement provision of CARES Act

Just weeks after implementation of the Coronavirus Aid, Relief, and Economic Security Act, (CARES Act), some sponsors of defined contribution retirement plans are acting preemptively in front of what is expected to be record slowing of economic activity in the second quarter.

Among 152 sponsors surveyed by the Plans Sponsor Council of America, 21.7 percent of sponsors with 1,000 or more participants in their retirement plans have either suspended or are considering suspending employer matches to retirement plans.

That is roughly in line with the number of large plans that suspended matches in the wake of the 2009 financial crisis, said Hattie Greenan, director of research at PSCA.

“While the current situation is very different, our survey results suggest approximately the same numbers. Whether they hold largely depends on the length and ultimate severity of the current crisis, especially as it relates to small businesses,” said Greenan in a press release.

So far, plan termination is not being considered among large sponsors, but smaller employers indicated the most dramatic of plan amendments—ending one—is being considered.

More than 6 percent of sponsors with less than 1,000 participants said the termination option is being considered. But it is not yet clear that they will.

Some plans that indicated they were considering termination also indicated they were considering suspending matches, explained Greenan in an email.

“The few organizations that indicated they are considering terminating the plan also indicated they are considering suspending contributions – they are still determining their course of action,” she said.

Large plans moving on CARES Act

The CARES Act included provisions that expanded the loan limit from 401(k) plans to $100,000, and created a new coronavirus hardship distribution of the same amount. In each case, the 10 percent penalty for the distributions are waived.

Nearly 47 percent of plans with more than 5,000 participants are amending plans to account for the increased loan limit, while more than 68 percent are allowing the increased hardship distribution.

Only 17 percent of plans with less than 200 participants said they are considering including the extended loan provision, and about 28 percent said they are considering amending plans to include the coronavirus hardship distribution.

While PSCA’s numbers are telling of COVID-19’s dramatic impact on retirement plans, the survey reveals that nearly half of surveyed sponsors are still weighing their options.

Large plans are more likely to have already acted: Two-thirds have already made a decision on plan amendments, compared to 48 percent of smaller plans.

“Employers are being forced to make difficult decisions between business needs and what is in the long-term best interest of their participants,” said Greenan. “They want to provide immediate relief to employees directly impacted by COVID-19 but are also thoughtfully considering the impact on their employees’ long-term financial stability and ability to retire.”

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